

U.S.-Japan Economic Partnership for Growth

U.S.-Japan Investment Initiative 2002 Report

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U.S.-Japan Economic Partnership for Growth 2002 Report on U.S.-Japan Investment Initiative

Introduction

The Investment Initiative was established under the U.S.-Japan Economic Partnership for Growth launched by President George W. Bush and Prime Minister Junichiro Koizumi in June 2001.

Alan Larson, Under Secretary of State for Economic Affairs, and Hidehiro Konno, METI Vice Minister for International Affairs, chair the Initiative. Under their leadership, the group met for high-level talks in October 2001 and May 2002, and at the working level in December 2001. The Initiative has also benefited from the valuable insights of U.S. and Japanese private sector participants.

In addition to these efforts, the Initiative has organized several public programs, including a seminar held in Chicago in January 2002, and seminars held in various Japanese cities in March 2002. The contents of this report are to be presented at two Invest-in-Japan Symposia to be held in the United States in July.

Executive Summary

- Japan is in a new period of reform, and foreign resources can effectively and efficiently contribute to the rebuilding of a nation. FDI is a critical factor for economic rebirth in Japan. With Japan's institutional reform moving forward, Japan is now a market in which many obstacles to foreign investments have been removed. As outlined in Section II of this report, investment-related systems and institutions in Japan continue to undergo a number of dramatic changes. While further changes are still necessary, Japan's refined and sophisticated market of more than 100 million consumers holding ¥1,400 trillion in personal assets beckons the entry of foreign businesses. The Japanese Government actively welcomes and promotes FDI. The United States also has found foreign investment vital to its economic growth and continues to maintain a free and attractive investment market.
- This past year has been an important one for investment between the U.S. and Japan. Japan has adopted a number of reforms, which have created unprecedented opportunities for foreign firms to play a substantial role in Japan's economy through investment. These include a significant reform of the Japanese Commercial Code, which allows companies for the first time to choose a U.S.-style corporate governance system. Changes enabling more transparent accounting procedures, liberalization of stock options, increased labor mobility, and improved real estate liquidity will help facilitate foreign and domestic investment, as well as improve productivity and promote growth.
- The Investment Initiative was established under the U.S.-Japan Economic Partnership for Growth (EPG) in June 2001. The Investment Initiative has played a key role in exploring critical investment issues and identifying ways to remove barriers. In addition to the topics mentioned above, the Initiative also examined how to remove restrictions on the use of merger and acquisition tools, improve perceptions of foreign direct investment, and increase the pool of assets available for investment in Japan. In reviewing the U.S. investment climate, the Initiative examined the costs of the legal system, legacy expenditures in certain industries, and the burden caused by certain regulations.
- The Initiative highlighted the important role played by foreign direct investment in the U.S.-Japan economic relationship. American companies have a century long history of investment in Japan. Japanese investment in the U.S. has also been important, particularly in the 1980s in helping to revitalize the U.S. economy by creating jobs and introducing new production systems. U.S. companies can play a similar role in Japan today, creating and maintaining employment, introducing new management techniques, and assisting in reviving the economy.
- Under Secretary of State Alan Larson and METI Vice Minister Hidehiro Konno chair the Initiative. Under their leadership, the group met for high-level talks in October 2001 and May 2002, and at the working level in December 2001. The Initiative has also benefited from the valuable participation of the private sector.

I. Foreign Direct Investment and U.S.-Japan Relations

A. Overview of Foreign Direct Investment

Foreign direct investment (FDI) flows between the United States and Japan have long contributed to the strength of our bilateral economic relations. Since the Meiji era, American companies have been active in Japanese markets and have played an important role in the transfer and provision of new technologies and products. In the postwar era, an increasing number of American companies established themselves in Japan contributing to economic growth, both as partners and competitors of Japanese firms.¹

Likewise, Japanese companies have been important players in the U.S. market, benefiting American consumers. During the 1980s, when some U.S. companies suffered from poor competitiveness and the economy faced both fiscal and current account deficits, many Japanese companies and their affiliates streamed into the United States investing in all sectors of the economy. In the process, they created employment, transferred advanced production technologies, and contributed to the revitalization of the U.S. economy. During this period, U.S. corporate managers, as well as U.S. business schools, took a keen interest in the production management methods developed by Japanese companies, studying *kaizen kanban* (just-in-time) and other Japanese techniques.

In the 1990s the Japanese economy slipped into a prolonged period of stagnation following the collapse of the bubble economy. Similar to the U.S. situation a decade before, incoming foreign investment has begun to play an important role in the economy. Over the past five years, U.S. direct investment in Japan has increased by a factor of six, and a growing number of U.S. companies are entering sectors, such as finance and retailing, where they enjoy comparative advantage. Both green-field and mergers and acquisitions (M&A) investments are creating and maintaining employment, introducing U.S. management methods, and stimulating the revival of the Japanese economy.

FDI is an important source of job creation in both the U.S. and Japan. In the U.S., FDI supports roughly six million jobs (5.4% of total U.S. employment). In Japan, FDI provides about 300,000 jobs (0.7% of total employment in Japan).

Despite recent inflows to Japan, the balance of investment remains uneven. In the U.S., total FDI from all sources amounts to approximately 3% of GDP. On the other hand, total FDI in Japan amounts to approximately 0.2% of GDP. The two-way investment flows between the U.S. and Japan remain considerably lower than the levels of those between the U.S. and the EU. Not only is the Japanese ratio lower than that of other

Employment created by Japanese companies in the United States totals about 834,000 jobs.¹ U.S. companies in Japan are the source of nearly 200,000 jobs.²

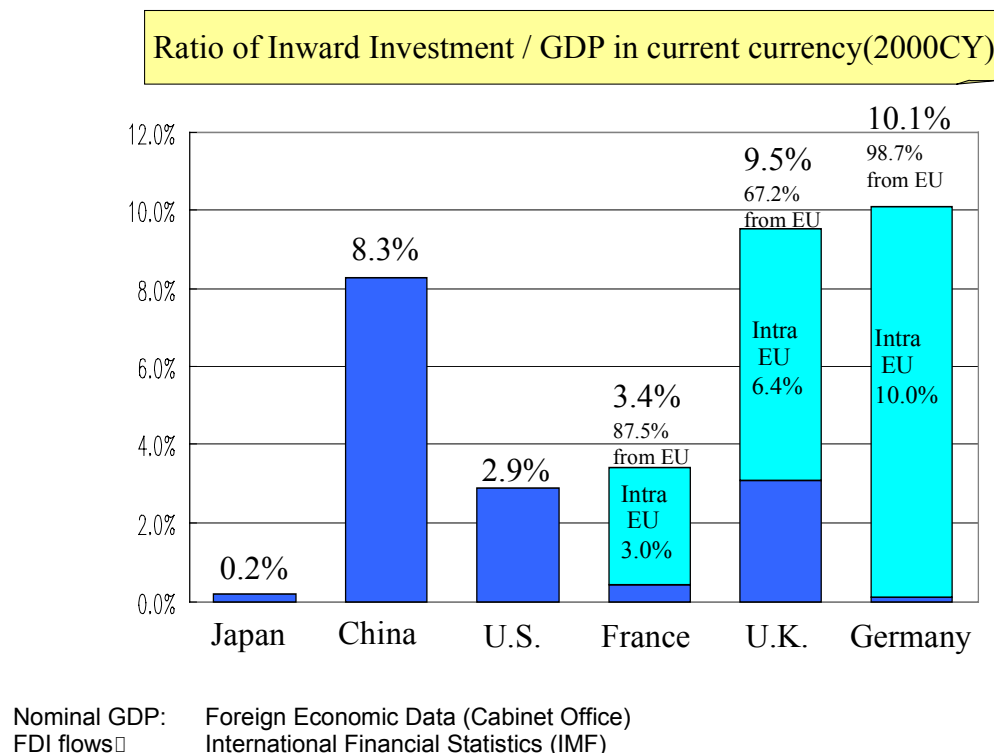
¹ Bureau of Economic Analysis

² METI Survey of Foreign Affiliates Business

¹ As noted in the preamble of the U.S.-Japan Treaty of Friendship Commerce and Navigation in 1953, encouraging mutually beneficial investment provides the foundation for the U.S.-Japan economic relationship.

advanced countries, it is also lower than the ratio for China.

Figure 1: GDP Ratio of Foreign Direct Investment in Major Countries



FDI goes beyond creating jobs and revitalizing local economies. Investment has a greater capacity than even trade to promote economic exchange and integration, creating deeper ties. Therefore, the mutually beneficial gains of investment will play an increasingly important role in further strengthening the Japan-U.S. economic partnership.

Recent Developments in Japan

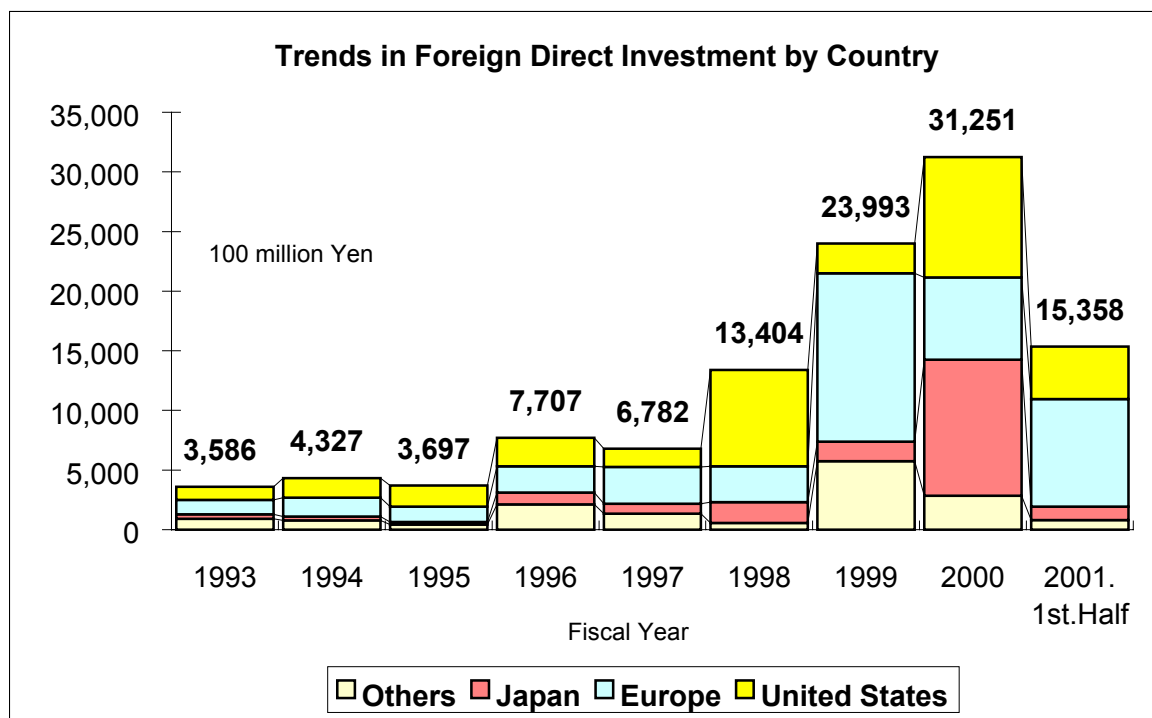
After the war and through the 1960s, Japan restricted the entry of foreign capital as part of its general industrial policy to eliminate competition in Japan's domestic markets and promote the development of Japan's infant industries. However, as a result of the liberalization of world markets and the emerging forces of globalization, Japan gradually began to encourage foreign direct investment.

In 1992, Japan revised the Foreign Exchange and Foreign Trade Control Law to allow ex post facto reporting of incoming foreign direct investments. In the same year, preferential tax provisions were written into the foreign investment law.² In 1994, the Japan Investment Council was established with the Prime Minister as its head. Nevertheless, it was not until

² The relevant legislation is entitled the "Law on Extraordinary Measures Related to the Promotion of Imports and Facilitation of Foreign Direct Investment in Japan".

the late 1990s that the pace of inflows picked up (see Figure 2) ³, and the gap between outgoing to incoming direct investments rapidly declined, from a ratio of 10:1 in 1997 to 1.4:1 in Japan fiscal 2000 (see Figure 3).

Figure 2: Trends in Incoming Foreign Direct Investment in Japan



³ Notwithstanding the imbalance in savings and investment between U.S. and Japan, Japan's incoming FDI is increasing, and the United States is the leading source of these investments. This development can be attributed to the combination of the following factors:

- First, in the global capital markets, direct investments exhibit a definite tendency towards bilateral movement. Normally, capital flows from low to high marginal efficiency arrive at an equilibrium arbitrated through expected exchange rates. In the case of Japan, the economy has more than enough savings to finance its investment needs. Given the relatively low rate of return on domestic investments, the tendency has been to increase the flow of funds to foreign portfolio and direct investments. However, some of this Japanese money goes into foreign funds which turn around and invest these financial resources in Japan. In other words, if the expected rate of return on investments is high enough from the subjective perspective of foreign investors, they may procure funds from the global capital markets in order to invest them in Japan. While the yield on portfolio investments is fixed, foreign direct investments, which move in combination with the management resources of the investor, hold out the possibility of higher rates of return depending on effort.
- The second consideration is the high evaluation of potential returns on investment in Japan. If economic resources are not being effectively utilized and productivity is declining, this gives rise to a possibility to transform the situation through the input of new management resources and technologies. This possibility provides investors with higher levels of expected returns.
- The third factor concerns the availability of risk capital. If the financial sector of the receiving country is dysfunctional because of structural problems, it may be unable to supply adequate amounts of risk capital. If the capital markets of the receiving country are characterized by highly developed indirect financing, the presence of excess liabilities will act to suppress investment demand, leading to a situation in which indirect financing will prove unable to supply risk capital. This creates an opening for foreign risk capital and may lead to a form of international division of functions based on the willingness to accept risk.

Source: Ministry of Finance

Note: Direct investments by Japan are those by affiliates of foreign businesses in Japan.

Source: Ministry of Finance
Notes: Values shown in parenthesis show percentage over previous year. (Values for the 1st half of 2001 compare with those of 1st half 2000).

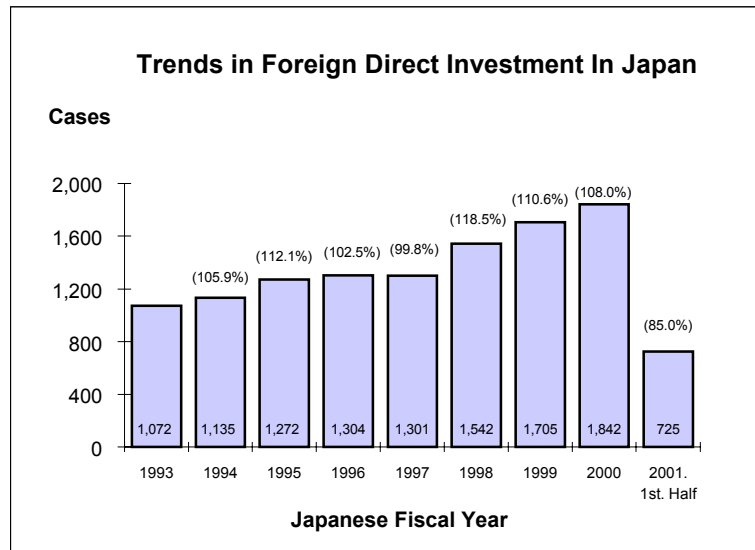
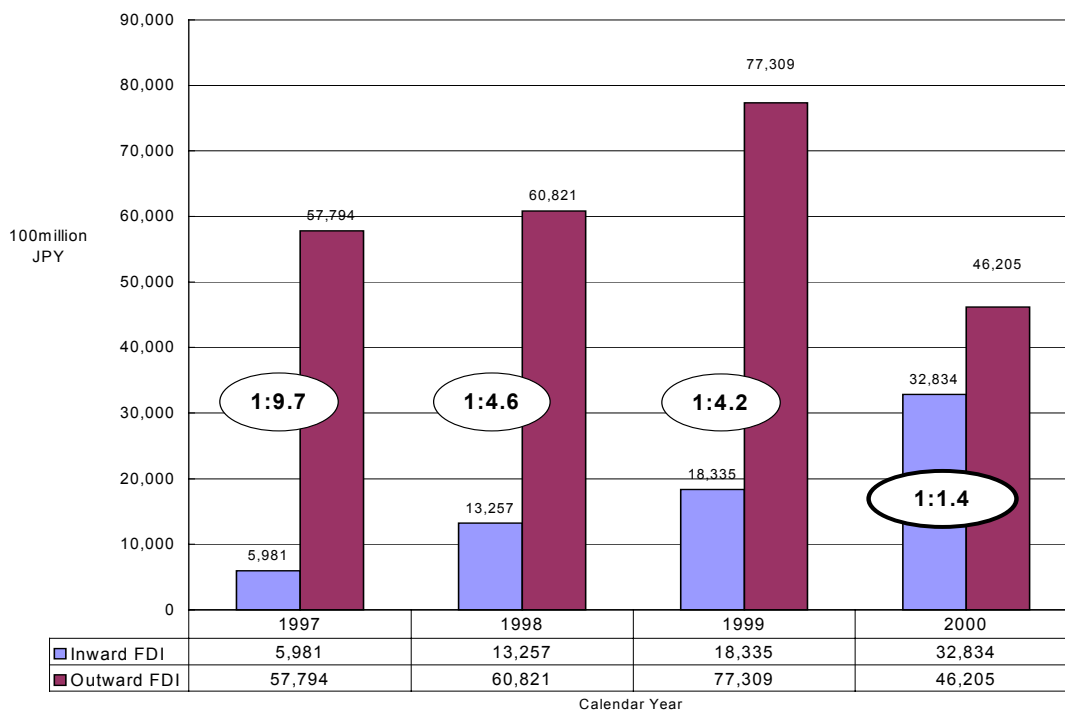


Figure 3: Ratio of Outgoing to Incoming Foreign Direct Investments

Inward and Outward FDI of Japan



Source: Ministry of Finance

Several factors contributed to these recent trends. First, to survive in an environment of global competition, Japanese firms have little choice but to step beyond their long-standing relationships and secure market position by creating more open networks. This opening

creates a far wider range of opportunities for foreign participation than in the past. In addition, the declining influence of main banks and the poor performance of parent companies has decreased the financing available in Japan thereby creating a role for foreign risk capital.

Meanwhile, government structural reform programs, especially deregulation in telecommunications, finance and retailing, opened doors for foreign investment. Current Japanese regulatory reform focuses on medical care, welfare/child care, human resources, education, environment, and urban rebirth. Steps taken by Japan, such as revisions to the Commercial Code and various corporate laws, facilitated the business activities of domestic and foreign companies. Other major areas of reform cover employment, real estate, general accounting principles, and aspects of the judicial system. Significant Japanese reforms over the past year, a key focus in the Investment Initiative talks, have created more opportunities for investors as highlighted below.

Major Legislative Revisions
<p>Examples of Sectoral Deregulation:</p> <ul style="list-style-type: none"> • 1998 financial "Big Bang." • 1998 Restrictions on foreign participation in Type 1 telecommunications carriers (except KDD, NTT) were lifted. Later, restrictions on foreign participation in KDD were also lifted. In 2001, foreign participation in NTT was raised to 1/3, from 1/5. • Deregulation and modification of the Law Concerning the Adjustment of Retail Activities by Large-Scale Retail Stores began in 1990 and was abolished in 2000.
<p>Revisions of the Commercial Code and Corporate Laws:</p> <ul style="list-style-type: none"> • <i>Lifting of ban on pure holding companies</i> (Dec. 1997): Revision of Antimonopoly Law to allow formation of pure holding companies. • <i>Streamlining of merger procedures</i> (Oct. 1997): Abolition of requirement for shareholders' meeting for merger, and simplification of procedures for protection of creditors. • <i>Introduction of stock transfer system</i> (Oct. 1999): System for existing company to form a new holding company; used in the integration of Mizuho Bank, UFJ Bank and others. • <i>Introduction of stock swap system</i> (Oct. 1999): System for establishing wholly-owned subsidiary relationship between existing companies; used by Sony, Softbank and others. • <i>Civil Rehabilitation Law</i> (Apr. 2000): New bankruptcy law facilitating quick action. • <i>Introduction of corporate divestiture system</i> (Apr. 2001): System for divesting part or all of the businesses of a company against payment made through the assignment of shares. • <i>Liberalization of stock option systems</i> (2002): Restrictions lifted on eligibility and volume of options. • <i>Revisions of the Commercial Code, Corporate Laws, and other Regulations (2002)</i>: Major revisions of the Commercial Code, which have been adopted, will, among other changes, permit use of U.S.-style corporate governance systems. • <i>Introduction of Consolidated Tax System</i>: A bill that would allow companies to pay tax on a consolidated basis was passed by the Diet and become effective as of April 2002.
<p>Improving Accounting Principles and Auditing System:</p> <ul style="list-style-type: none"> • <i>Consolidated accounting</i>: Introduction of standards on real control and influence (2000). • <i>Tax effect accounting</i>: Applicable to all non-consolidated and consolidated financial statements (2000). • <i>Mark-to-market accounting</i>: Applicable to trading securities (2001); retirement benefit obligations and pension assets (2001); available-for-sale securities (cross-shareholding, etc.) (2002).
<p>Improving Labor Mobility:</p> <ul style="list-style-type: none"> • Introduction of Defined Contribution portable pension plans. (Oct. 2001). • Negative list of eligible jobs for for-pay employment agencies (1997); expansion of coverage and simplified licensing procedures (Dec. 1999); deregulation of fees (Feb. 2002). • Liberalization, in principle, of eligible jobs under Worker Dispatching Law (Dec. 1999); extension of period of dispatch of middle and high age-group workers from one year to three years (Jan. 2002); expansion of specialty fields eligible for three-year dispatch period. • Extension of period of termed contracts in designated businesses (Apr. 1999); expansion of specialty fields eligible for maximum three-year termed contracts (Feb. 2002).

Increasing the Liquidity of Real Estate Assets:

- *SPC Law*: Promoting the securitization of real estate assets and designated money assets (Sept. 1998); simplification of procedures and introduction of trust schemes (Nov. 2000).
- *Services Law*: Promoting the liquidity and securitization of collateralized real estate assets (Jun. 2001).
- *Investment Trust Law*: Expansion of the scope of investment trusts from securities to real estate assets (Nov. 2000). As of March 2002, three REITs are listed on the TSE.

Another factor promoting investment stems from the growing willingness of Japanese to accept foreign investment. This is complemented by the perception that foreign companies are moving away from the quest for short-term returns on investment and are adopting business strategies emphasizing the improvement of medium to long-term returns on investment. More importantly, the growing sense of crisis and the realization that the revitalization of the Japanese economy and its survival in global competition depends on the ability to undertake reforms is encouraging a welcoming attitude toward investment. Many Japanese companies with excellent business assets that nevertheless require dramatic restructuring because of past management mistakes and the lingering burden of debt are looking to foreign partners for assistance. Likewise, companies seeking to bolster their competitive positions by raising productivity view FDI as a strategic trump card.

A final factor encouraging investment is the worldwide movement toward forming alliances and mergers in a time of global competition. Major Japanese and U.S. corporations in financial services, telecommunications, retailing, petrochemicals, automobiles and pharmaceuticals are merging or forming alliances. For large companies, mergers often occur through share exchanges instead of large sum payments. Increasingly, firms are seeking to use M&A and other tools to position themselves globally.

Recent Developments in the U.S.

The U.S. has consistently attracted FDI inflows from countries around the world. At times of economic weakness, FDI has played a key role in revitalizing the U.S. economy. Thus, in the first half of the 1980s, when U.S. firms were drastically restructuring, FDI flows from Japan and elsewhere provided critical capital and management expertise needed to help U.S. companies restore competitiveness, maintain employment and boost productivity.

Even in better economic times, FDI inflows remain an important source of economic vitality in the U.S. economy, continually providing new management and technological approaches as well as capital. The U.S. has been a favored destination of FDI because of its open economic system, strong economic growth, and high rate of return on investment. The recent pace of deregulation and technological change in a number of industries has been particularly rapid, making U.S. companies in affected industries attractive targets.

**Figure 4: Foreign Direct Investment Position in the United States
on a Historical Cost Basis, 1996-2000**

Year end	Billions of Dollars	Percent Change from Preceding Year
1996	598.0	11.7

1997	681.8	14.0
1998	778.4	14.2
1999	965.6	24.0
2000	1,238.6	28.3

Source: Bureau of Economic Analysis, Department of Commerce

**Figure 5: Investment Outlays in the United States
by Type of Investment, 1996-2000**
(billions of dollars)

	1996	1997	1998	1999	2000
Total Outlays	79,929	69,708	215,256	274,956	320,858
By type of investment:					
....U.S. business acquired	68,733	60,733	182,357	265,127	316,461
....U.S. business established	11,196	8,974	32,899	9,829	4,396

Source: Bureau of Economic Analysis, Department of Commerce

In 2000, foreign direct investment stock in the United States rose 28 percent bringing FDI measured at historical costs to \$1,238.6 billion (see Figure 4). The largest positions remained those of the UK (19 percent) and Japan (13 percent). Outlays by foreign direct investors to acquire or establish businesses in the U.S. increased 17% to \$320.9 billion in 2000 (see Figure 5).

The continued global boom in mergers and acquisitions contributed significantly to the growth of FDI into the U.S. from 1998 to 2000, causing unprecedented levels of new investment spending. Most of the cross-border M&A involved U.S. and EU companies as they sought to increase their global positions through acquisitions. Industry-specific factors also contributed to the wave of M&A in 2000. Firms sought economies of scale or market power, particularly in the petroleum, finance, telecommunications and insurance industries. In 2000, for every major investing country except Japan, the increase in the FDI position in the U.S. was largely due to acquisitions. For Japan, however, the increase was more evenly divided between acquisitions and expansions of existing operations.

Types of Foreign Direct Investment

Direct investments can be categorized into two major types: green-field and M&A investments. M&A investment can be further divided into three types designed to either:

- restructure and salvage companies: foreign funds play a notable role in the acquisition, rehabilitation and the disposal of non-performing assets in the liquidation of failed companies.
- restructure to gain alliances and compete globally: foreign firms become more competitive globally by boosting the efficiencies of management and capital by shedding low-profit businesses and integrating strategic segments (often used by automobiles, chemicals and telecommunications companies).
- target new growth areas which have opened up through deregulation and other developments: firms enter a foreign market through an alliance or merger with a local

company instead of going it alone (in Japan, this strategy has been used in the financial services, retailing, energy and telecommunications markets).

B. Role of Foreign Direct Investment

Foreign direct investment is an important form of economic activity for both the investing and receiving sides. By combining and integrating dissimilar economic resources, foreign direct investment creates management transformation, promotes the improvement of organizational and capital efficiencies, and encourages the development of new technologies and business models. At the same time, FDI plays a vital macroeconomic role by creating jobs, generating effective demand, and supplying risk capital, and strengthening international ties.

Improved Management Efficiency and Competitiveness

The greatest significance of foreign direct investment is that it functions as a source of microeconomic dynamism. By directly transforming corporate management, FDI can improve management and capital efficiency. This process also strengthens the overall industrial competitiveness of the receiving country by: optimizing the allocation of management resources through business restructuring, rendering the company more responsive to global competition, and contributing to the development of high value-added industries. Further, the creation of new businesses and the promotion of competition lowers domestic costs, contributing indirectly to improving the competitive position of user industries.

In Japan, it is particularly noteworthy that FDI, within the general context of structural reform, is steadily giving management greater creative leeway, and acting as a catalyst to help change management thinking. The introduction of new management resources and the integration of highly diverse corporate cultures can energize established and staid routines and contribute to the creation of new technologies and business models. Frequently in the Japanese economy today, the organizational process holds back productive individuals, yielding low overall productivity. In light of this fact, FDI can be an extremely effective means of breaking through organizational inefficiency and inertia.

Job Creation

While green-field investments by definition create new jobs, M&A investments can also contribute to job creation. M&A may entail some restructuring over the short term, but it can also allow a business to survive in the longer term. Thus, FDI can sustain levels of employment that would otherwise be lost entirely. If a restructuring program succeeds, additional investments and increased productivity may create new jobs in the medium to long term. Further, foreign companies that acquire Japanese firms often allot a substantial portion of their business activities to the Japanese market, including various domestic procedures and the maintenance of its business networks, which can keep and create employment in Japan through re-employment, training and hiring._

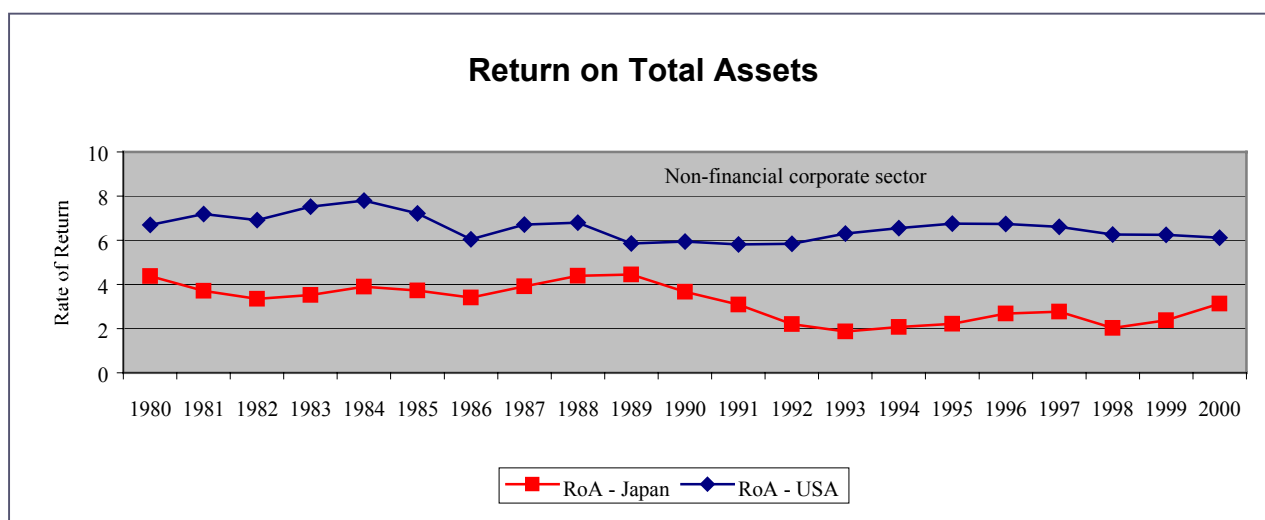
Generating Effective Demand

FDI injects new management resources into businesses that do not appeal to domestic investors because of poor prospects for return on investment. When FDI promotes restructuring, sectors that have traditionally seen low productivity, such as sectors not exposed to international competition, may improve, and, stimulate and increase consumer demand. This is clearly observed in the success of U.S. firms in the Japanese markets of tourism and entertainment, food products, and retailing.

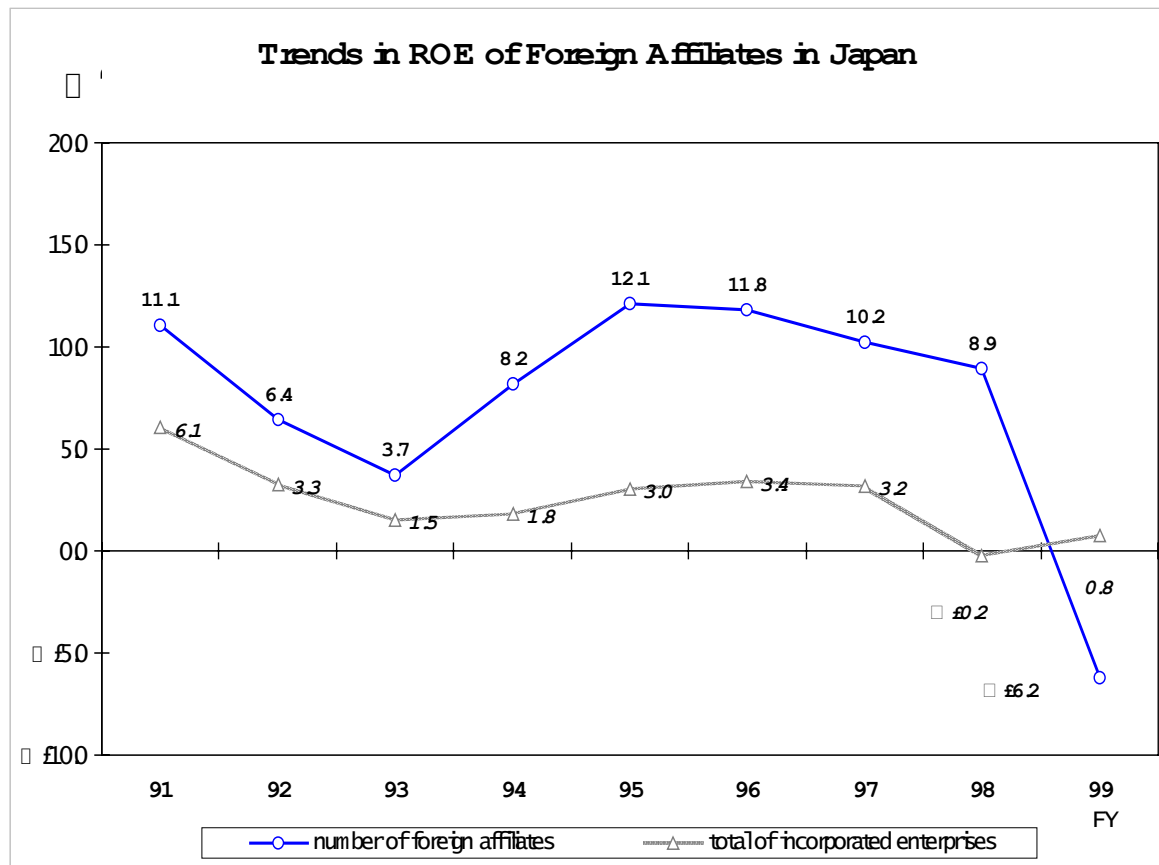
Foreign direct investment can also halt shrinking domestic demand caused by the hollowing-out of industries by creating domestic employment, contributing to local development, and playing a complementary role in supporting aggregate demand. For example, when the United States faced hollowing-out during the 1980s, foreign investment, especially from Japan, helped offset the negative effects on demand.

Foreign direct investment also supports demand growth through the effective disposal of non-performing assets. As shown in Figure 6, there is nearly a two-fold gap between return on assets (ROA) in Japan and the United States. The commitment of foreign capital to the restructuring of receding companies and industries saddled with poor productivity and low profitability promotes the liquidation and reallocation of non-performing assets and underutilized human capital. This process exerts a positive impact on both production and consumption over the medium to long-term. In turn, if the inflow of risk capital from foreign sources can accelerate the disposal of excess liabilities and non-performing assets, foreign direct investment will contribute to stopping the cycle linking debt overhang effect to shrinking demand and to deflation.

Figure 6: ROA and ROE in Japan and U.S.



Source: Presentation under the U.S.-Japan Investment Initiative Working Group December 13, 2001



source: 34th Survey of Foreign Affiliates Business Activities(Ministry of Economy Trade and Industry)

- The significant decline in the ROE of European affiliates in the manufacturing industry in FY1999 led to the decline in ROE of total foreign affiliates in Japan.
- The ROE of U.S. affiliates reached 9.0% , the highest ratio of all industries.
- The significant deficit in current income after tax in the transport machine industry influenced the decline in the total ROE.

Another factor affecting investment is the evaluation of potential returns on investment in Japan. If economic resources are not being effectively utilized and productivity is declining, transformation through the input of new management resources and technologies may provide investors with higher levels of expected returns thereby creating a virtuous investment cycle.

Providing Risk Capital

If the financial sector of the receiving country is dysfunctional because of structural problems, it may be unable to supply adequate amounts of risk capital. Foreign risk capital can fill the gap, stimulating entrepreneurship and other creative economic activities that encourage economic growth.

Strengthening International Ties

Finally, foreign direct investment constitutes a foundation upon which multifaceted international exchanges and closer bilateral ties may be developed. Unlike the case of the trade in goods, FDI leads to an exchange of a comprehensive package of people, ideas,

technology and culture. These ties lead not only to deeper economic engagement, but also to deeper political and social understanding and cooperation.

C. Public Programs

FDI promotion requires more than just legislative reform. Concrete support systems must be developed for business and information concerning specific investment opportunities and the investment environment need to be provided to foreign firms. Therefore, the Investment Initiative has undertaken a series of programs aimed at developing a fuller appreciation for foreign direct investment and providing the public with information on actual investment projects. Programs in 2002 include:

- In January, an *Invest-In-Japan* mission visited Chicago, attracting 200 local U.S. companies.
- In March, U.S.-Japan Investment Initiative seminars were held in Kobe, Fukuoka and Nagoya. Participants included local government organizations, JETRO and representative U.S. companies in Japan.
- In July, a series of symposia on investment in Japan will take place in New York and Chicago.

Involvement of Local Government Organizations

The enthusiastic and active involvement of local government organizations is an essential requirement in any successful effort to attract investments. At the Investment Initiative's outreach seminars in March, participants stressed that investment should be a high-priority commitment for local governments because of the important impact on local economic development and employment. Going into these seminars, there was some concern that local government and private groups would be apprehensive about incoming FDI. However, this concern proved mostly unfounded, and the response to the prospect of foreign companies investing in Japan was generally favorable. Previously, many in Japan seemed to prefer green-field investments as they were seen to have a direct and immediate impact on the sale of industrial properties and the creation of new employment. However, during the seminars, there was growing interest in M&A and finding foreign partners willing to participate in corporate restructuring and economic revitalization. (See Appendix 2 for more details.)

Private Sector views on Attracting Investments

During the public seminars, the private sector offered views on how to attract investment. U.S. business presented success cases of investment in Japan and identified various continuing challenges and barriers. Key issues for U.S. companies included (See Appendix 3 for more details):

- *Easy access to key information concerning companies and regions:* Investors need transparency in accounting and auditing to make decisions. Uncertainty undermines the value and attractiveness of an investment.
- *Simplified regulations and procedures:* Investors are looking for effective systems for one-stop services and local government support of such services.
- *Lower real estate, transportation, wages and other operating costs:* Investors believe these costs are currently too high and are looking for reduced costs.
- *Local living environment:* The region must be able to offer a good living environment which includes housing, shopping facilities and international schools.
- *Welcoming attitude towards investment and a commitment to openness and acceptance of foreign companies:* Investors want local community support for M&A and other

activities for asset liquidation and disposal of non-performing assets. From the perspective of business restructuring, these should be viewed as vital and valuable business activities that contribute to the revitalization of local economies and the creation of jobs.

- *Japanese company interest in alliances with foreign companies:* In general, publicly traded Japanese companies have low levels of return on equity (ROE). With the growing pressures of Chinese exports, Japanese companies will need to increase their levels of value-added. Japanese companies can improve their competitive position by developing alliances with foreign companies. Companies and banks burdened by debt can be rehabilitated through the injection of foreign capital. Even a fully competitive company may benefit from selling those assets, which do not support its core competence, to foreign interests.

A Japanese business leader participating in the seminars as a commentator addressed the issue of the U.S. experience with industrial hollowing-out during the 1980s. He explained that the United States succeeded in stemming the tide of hollowing-out and resurrecting local industries by implementing the following three policies:

- (1) the government, private sector and academia joined forces in thoroughly studying what must be done to resurrect U.S. competitiveness (they investigated Toyota's just-in-time system and the full range of Japanese business practices);
- (2) the government, universities and private companies prioritized a series of promising new fields, such as biotechnology and information technologies;
- (3) there was a very clear transformation of the function of state governors with state governors adopting as one of their most important duties the task of attracting foreign investments to fill in the gaps left by the process of hollowing-out; bold programs were launched for enticing investments, each featuring the special advantages and characteristics of the region.

The speaker argued that local government authorities in Japan must also undergo a similar transformation. Japan is in direct competition with China and other Asian nations that are looking for new foreign investments. These countries are offering drastic and long-term tax breaks and are also actively publicizing the improvements that have been made in their living environment. Faced with this Asian competition, local governments in Japan must devise bold and attractive packages and must play a leadership role in simplifying and streamlining regulatory procedures.

II. Specific Initiatives

A. Direct Investment in Japan

During the Investment Initiative meetings, the Governments of Japan and the United States reviewed a series of specific issues affecting foreign direct investment in Japan. In response, the Japanese Government instituted a number of reforms, which it outlined at the meetings. The U.S. Government, while appreciating these efforts, also expects additional progress will be made. Both sides will continue discussions on these areas, as necessary. In addition, other important areas discussed were methods for carrying out M&As, assets available for investment, and perceptions of foreign investment.

1. Areas of Progress

Commercial Code Revisions: The Government of Japan this year submitted a significant revision of the Commercial Code, which among other things allows greater corporate flexibility, including permitting Japanese companies to adopt a U.S.-type corporate governance system. This new flexibility will increase the level of transparency for foreign investors and promote investment. Under these revisions, Japanese companies may establish three committees (Nomination Committee, Compensation Committee, Auditing Committee) within the board of directors and if a majority of the members of each of the committees are outside directors, executive officers can make decisions on a number of matters which were previously the prerogative of the board of directors (such as the issue of new shares and corporate bonds). The bill was enacted by the Diet on May 22 and is scheduled to go into force in April 2003.

Another reform was the elimination of restrictions on stock options, which was enacted in the extraordinary session of the Diet in the fall of 2001 and came into force in April 2002. Under this revision, restrictions on eligibility to receive stock options were eliminated⁴, restrictions on the number of shares which can be assigned through stock options were eased⁵, and the issuance of notices of shareholders' general meetings via electronic means and the wider use of information technologies in corporate management were permitted.⁶ This new flexibility offered by these amendments was welcomed by the Investment Initiative. The U.S. Government emphasized its interest in continuing to review the impact of these changes.

Accounting System: Japan has been revising its accounting standards with the goal of achieving harmonization with international standards. Thus far, the following have been introduced: disclosure of consolidated corporate information, market value accounting for financial products, tax effect accounting, and market value accounting for retirement benefit obligations. Various regulations have also been instituted as guidelines on accounting practices. These include a more rigorous treatment of compulsory devaluation methods from marketable real estate assets and the prohibition of cross trading. Issues still under review include loss accounting and accounting for business combinations.

⁴ Eligibility was previously limited to directors and employees of the issuing company.

⁵ Previously the number was limited to 10% of the outstanding shares. This has been changed to an amount within the limits of authorized capital.

⁶ This was allowed to promote greater speed in corporate decision-making.

Following extensive deliberations on loss accounting, the Business Accounting Council published draft proposals in April 2002, and is currently soliciting public comment. While this system is scheduled to become applicable in fiscal 2005, companies may start on a voluntary basis in fiscal 2003. Further, a summary of issues on accounting for business combinations was published in June 2001, and the purchase method and pooling method are currently under discussion. In 2001, the Financial Accounting Standards Organization was established as private-sector organization and began to develop accounting standards for the treatment and disposal of treasury stock. In the area of auditing standards, the existing system was revised in January 2002, to match international auditing standards. The new standards contain provisions for auditing going concerns and for explicit evaluation of the discovery of wrongdoing. The new standards are scheduled to begin the end of fiscal year 2003.

The Investment Initiative welcomed the increased transparency brought by these changes. The U.S. Government expressed interest in continuing to review the development of accounting standards and implementation of new practices.

Real Estate: Liquidity of land assets and transparency of land prices have become key areas of interest for investors. Progress made in this area can be seen in the growth of real estate investment trusts (REITs). Following their introduction in September 2001, the number of REITs listed on the Tokyo Stock Exchange has grown to three issues as of May 2002. As REITs allow individual investors to make small-lot investments in real estate assets, Japanese Government authorities expect that REITs will become increasingly popular with investors and that the market for REITs will gain greater depth in the future. Regarding the issue of transparency, disclosure systems have been upgraded under the Securities and Exchange Law and the Investment Trust Law. Generally, information on real estate prices is not as available as stock prices. Therefore, to prevent acquisition of REITs at unfair prices, the law requires that the price of a property be investigated by a disinterested third party and the results of the investigation disclosed. Finally, when a real estate property has been acquired by REITs, the acquisition price must be investigated by a third party as indicated above and the acquisition price must be disclosed. Regarding conflict of interest, the Investment Trust Law as a rule prohibits transactions involving interested parties⁷. However, the U.S. Government emphasized the need for transparency of land prices in general.

Increasing Labor Mobility: Defined Contribution portable pension plans were introduced in October 2001 as a portable pension plan adopted to increase labor flexibility. As of May 2002, a total of 81 companies had adopted this system, and more are expected to do so soon. Both Governments welcomed the establishment of defined contribution pension plans in Japan and encouraged wide adoption of the system. In this regard, the U.S. side said quick processing of applications will be important.

⁷ For example, transactions giving rise to conflicts of interest between the managing company of a REIT and interested parties (inter-fund transaction, transactions between a fund and the managing company) are as a rule prohibited. In the event that such a transaction occurs as an exception, written notice must be given to all investors.

Regarding standards and rules concerning dismissal of employees, Japanese laws prohibit dismissal based on certain personal attributes, such as nationality, creed and social standing. The laws also contain procedural regulations, such as issuance of a 30-day notice and payment of a notice allowance. Other than these, there are no legal restrictions on dismissal. However, Supreme Court rulings have established a judicial precedent of “principle of law concerning abuse of the right of dismissal.” Under this judicial precedent, any exercise of the right of dismissal is null and void if it lacks reasons that can be objectively determined to be rational, or if it cannot be affirmed to be proper under current social conventions. Regarding dismissal for the purposes of reorganization, decisions are made based on the following considerations set forth in judicial precedents such as the following: [1] the necessity to reduce the number of employees; [2] the necessity to opt for dismissal as a means; [3] justification of the selection of employees to be dismissed; [4] justification of the dismissal process. However, in and of themselves, these standards do not intend to prohibit dismissal and individual cases are examined by the courts for their own merits. In a certain case of dismissal involving a foreign company that was closing down one of its divisions, the courts decided that the company’s dismissal of its employees did not violate “abuse of the right of dismissal.” Nonetheless, from the perspective of avoiding labor-management disputes, it is important to clarify the standards and rules concerning dismissal. For this reason, this matter has been made one of the subjects of discussion in a deliberative council of the Ministry of Health, Labor and Welfare.

Professional Services: To cope with the complexity of investment activities in Japan, the number of lawyers and certified public accountants with the requisite specialized expertise needs to increase. Regarding attorneys, the Council for Judicial Systems Reform has recommended that increasing the number of successful candidates for the existing national bar examination should begin immediately, with the aim of reaching 1,500 successful candidates in 2004. In addition to establishing a new legal training system (including law schools), the aim is to have 3,000 successful candidates for the new national bar examination in about 2010. In March 2002, the Cabinet approved these plans.

Regarding certified public accountants, there is growing discussion of a shortage of certified public accountants given the globalized business environment, and the Government's deliberative councils are now reviewing relevant systems, in order to increase the number of accountants. The two Governments welcomed these changes. The U.S. expressed continuing interest in how to increase the supply of professional services, and encouraged speedy implementation of Japanese Government plans.

To promote cooperation and collaboration between *bengoshi* and *gaikokuho-jimu-bengoshi (gaiben)*, the Office for Promotion of Justice System Reform plans to submit legislation to the ordinary session of the Diet, which is expected to commence in mid-January 2003, to deregulate the requirements for specified joint enterprises (*tokutei kyodo jigyo*). The U.S. government urged further steps to increase the freedom of association between *bengoshi* and *gaiben*.

Consolidated Taxation: A bill that would allow companies to pay tax on a consolidated basis was passed by the Diet and become effective as of April 2002.

2. Areas for Continuing Work

Restrictions on M&A Methods Used by Foreign Companies: The principal issue discussed in the Investment Initiative this year was the utility of making sure appropriate M&A tools were available to foreign firms. The two sides had a frank exchange of views and will continue to discuss this matter in the future.

The U.S. Government stated that use of all M&A tools by foreign companies has become one of the most important investment-related issues for Japan. It stated that changes are needed to allow the use of a broad range of M&A methods, including cross-border stock swaps along the lines currently allowed in Japan, cash mergers, and short-form/squeeze-out mergers. The Japanese Government responded that it is in the position, in general, to cope with practical needs by making necessary changes in relevant laws and policies. However, the Japanese Government indicated that it is necessary to continue reviewing these matters because a comprehensive review of the Commercial Code has been in progress, and therefore it is necessary to consider the issue of legal consistency; and numerous legal issues remain to be adequately examined, including the principles and concepts contained in the legal systems of other countries.

Assets Available for Investment: Another key issue of discussion in the Investment Group was the disposal of non-performing assets. The U.S. Government explained that a large pool of capital is waiting for an opportunity to purchase such assets, and strongly urged immediate and bold action for liquidating non-performing assets in the market. In response, the Japanese Government described the rapid development of Japan's acquisitions market. (Refer to Appendix 3 for specific examples of acquisition.)

Perceptions of Foreign Investors: Finally, regarding perceptions of foreign investors in Japan, the Governments of Japan and the United States agreed that developing a better understanding for foreign investments in Japan is a key factor in promoting the inflow of foreign direct investments, and it is necessary for both sides to continue implementing joint activities to inform the public of the benefits of foreign direct investment. Reports of the investment seminars held in Japan during March indicated a nuanced shift away from the traditional negative attitudes towards M&A in Japan, and that local economies are rapidly moving toward welcoming new business partners.

B. Direct Investment in the United States

The Governments of Japan and the United States reviewed a series of specific issues affecting foreign direct investment in the United States. The Japanese Government identified the following issues pertaining to foreign direct investment in the United States: legal costs, complex economic regulations on the state and federal levels, procedures such as those prescribed under the Foreign Agents Registration Act (FARA) and the International Investment and Trade in Services Survey Act, timeliness of visa issuance, and issues related to transparency of investment procedures under the Exon-Florio Amendment. The Japanese Government expressed interest in continuing to review developments in these issues. Both sides will continue discussions on these areas, as necessary.

Legal Costs: The Governments of Japan and the United States share concerns that legal costs can impact the business environment. The USG indicated that it was promoting further public discussion of this item. As a first step, it has publicized the costs of the tort liability system in the United States (including product liability) through a study available on the CEA website (<http://www.whitehouse.gov/cea/>).

Legacy Costs: Citing the example of the steel industry, the Japanese Government stated that legacy costs were acting as barriers to entry by foreign companies intending to make acquisitions or investments in the industry, and argued that this was not conducive to the rehabilitation of the U.S. steel industry. The U.S. Government responded that where it is necessary to promote restructuring in industrial sectors, it would develop general programs for facilitating this process.

Foreign Agents Registration Act (FARA) and International Investment and Trade in Services Survey Act (IITSA): On FARA, the Japanese Government stated that the historical significance of the law was understandable, but questioned whether the restrictions were needed now that the Lobbying Disclosure Act (LDA) had been enacted. The U.S. Government responded that proper levels of transparency are of vital importance, and that companies would have to provide requisite information. The U.S. Government explained that the LDA is a simpler process, which aid many firms.

On the IITSA, the Japanese Government requested that the reporting burden be eased. The U.S. Government explained the need for the data collection but noted that it aims to make the amount of information required as minimal as possible, while still ensuring the needed data is obtained.

Visas: The Government of Japan said that speed in visa issuance is important. The U.S. Government stated that any problems should be brought to the attention of the U.S. Government by contacting the Embassy.

Regarding accounting and auditing standards, the U.S. Government mentioned the Enron case and stated that while the U.S. system was not perfect, the Government was prepared to take strong action whenever problems emerged. After stating that the Enron case demonstrated that there was no such thing as perfect accounting standards, the Japanese Government added that standards are nonetheless important and commented that it intended to continue to study how to establish better accounting and review auditing standards in the future.

III. Conclusions

In the 1980s, under very difficult conditions of stagflation, the United States moved to increase the liquidity of its economic resources by terminating long-term employment systems, overhauling and disassembling major corporate structures, implementing deregulation and other forms of structural reform, and accepting massive injections of foreign investments from countries such as Japan. These measures provided a framework for creating new synergies of economic resources, developing new technologies, and instituting new management methods and strategies -- all of which helped foster revolutionary advances in information technologies and biotechnologies. This ability to integrate "opposites" to create new dynamic growth may be the most important aspect of foreign direct investment.

Now, as Japan is in a new period of reform, and foreign resources can effectively and efficiently contribute to the rebuilding of a nation. FDI is a critical factor for economic rebirth in Japan. With Japan's institutional reform moving forward, Japan is now a market in which many obstacles to foreign investments have been removed. As outlined in Section II of this report, investment-related systems and institutions in Japan continue to undergone a number of dramatic changes. While further changes are still necessary, Japan's refined and sophisticated market of more than 100 million consumers holding ¥1,400 trillion in personal assets beckons the entry of foreign businesses. The Japanese Government actively welcomes and promotes FDI.

As the global economic leader, the United States made clear it would maintain free and attractive markets that will continue to draw foreign investments. For both nations, FDI remains an effective method of stimulating economic growth and both should continue to strive to improve their investment climates.

APPENDIX 1: The British Experience

The following is an extract from a study presented by a seminar panelist

The United Kingdom implemented far-reaching economic reforms during the 1980s under Prime Minister Thatcher with foreign direct investment playing a key role in this transformation. Often referred to as the "Wimbledon phenomenon," by adopting a policy of nondiscriminatory national treatment of foreign entities, the U.K. was able to attract foreign companies that contributed to job creation, improved productivity and increased consumer welfare.

As a result, the U.K. came to have one of the highest foreign direct investment ratios in Europe. Studies of foreign direct investment in the U.K. at that time revealed that, in comparison to local companies, foreign companies were more capital intensive, had higher labor productivity and had higher import ratios. In addition, local businesses associated with foreign companies also benefited from the positive impact of FDI. Foreign investments generated external economies, through movement of labor and increased learning, which benefited local companies. Local Governments also worked aggressively to support improvements in the investment environment. These programs were equally open to both domestic and foreign companies, regardless of nationality of the company.

During the ten years between 1990 and 2000, the United States had \$927 billion in foreign direct investments; the U.K. had \$320 billion and Japan had \$26 billion. During that same time period, the ratio of foreign direct investments in the manufacturing sector stood at 3.3% in Japan, while it was 12% in the United States and 32% in the U.K.

APPENDIX 2: *Invest in Japan* Seminars and Local Government Activities

The Investment Initiative sponsored several *Invest in Japan* seminars in Japan this past spring. At the seminars, local governments explained the preferential packages offered in various regions of Japan and efforts to improve the general investment environment. Some examples include:

- In Hyogo Prefecture, the government announced preferential measures for foreign companies including: subsidization of feasibility studies concerning location; exemptions on real estate taxes corresponding to the investment amount; and, a maximum location subsidies of ¥150 million corresponding to the number of employees.
- In Fukuoka, special mention was made of the region's advantages of low wages, low cost of living, easy access to Asia, and the excellent standards of the institutions of higher learning. The government also introduced the Fukuoka Giga-Byte Highway Concept featuring a state-of-the-art 2.4 giga-byte network linking Fukuoka to Europe and North America via Pusan with Tokyo providing "free communication" between Fukuoka and Tokyo, and a prospective project for fund procurement and business matching targeting start-ups in Asia.
- In Aichi Prefecture, the prefectural assembly is currently deliberating on a preferential tax scheme for newly locating companies involving a 2% cut in real estate taxes (3% cut for small- and medium-sized enterprises). Aichi Prefecture also emphasized its concentration of automotive and other manufacturing industries in the region as an advantage to locating there.

These seminars revealed a sense of disappointment that, despite these efforts, FDI has continued to gravitate towards Tokyo. Calls were made for stepped-up publicity campaigns on the local level, as well as publicity by the U.S. Government to encourage U.S. companies to invest in Japan.

APPENDIX 3: Success Cases of Investing In Japan

The following are summaries of success cases of foreign direct investment in Japan.

Case 1: Corporate acquisition by U.S. fund managing company "A"

Our fund has been involved in acquiring Japanese companies and has participated in business restructuring through equity investments in high-risk areas. There are three specific issues facing Japan: non-performing loans, China, and the aging of society. Japan will be able to rise again if the Government stops protecting low-productivity sectors and suppressing the growth of high-productivity sectors.

We recently acquired a local tourism business. Information on businesses outside Tokyo does not reach Tokyo easily, and the information we received on this bankruptcy was negative. We noticed that the company had filed under the Company Rehabilitation Law and became curious as to why it had done so because it seemed the company did not have any real prospects to rehabilitate itself. In gathering information first hand, we found a group of hard working young people trying to make improvements and looking for a sponsor. We went back with a tourism expert to review the situation who concluded that the company had made many mistakes. To us, this meant there was ample room for improvement.

Our decision to buy the business was based on the following factors: excellent assets; hardworking, young staff; a sympathetic judge in charge of the case; and, a supportive local government. The greatest obstacle was the difficulty in gathering the information needed to make an investment decision. Another obstacle was that real estate taxes, which were assessed at book value, were very high. For us, it was very important that the municipal government agreed to lower the real estate tax.

Case 2: Establishment of new factory in Japan by U.S. manufacturing company "B"

Our company, headquartered in Illinois, is a developer and manufacturer of liquid grinders for semiconductors. We hold an 80% share in the global market for grinders for chemicals machinery and employ 460 workers (100 employees in Japan). Our main customers are major manufacturers of semiconductors. We went through several steps between the time we decided to establish ourselves in Asia and our decision on the location of the factory in Japan.

First, Asian demand for grinders increased sharply in the second half of the 1990s as Asian output of semiconductors grew. Responding to this development, we started our search for an Asian location in January 1997. Our criteria for a successful candidate country included: cost of transport, cost of land, availability of labor, wage levels, cost of production, political and economic stability of the country, availability of semiconductor technologies, and the level of infrastructure development. Given the advanced state of Japanese semiconductor manufacturers and its role as suppliers of technologies to the Asian countries, we concluded that we would be able to improve our competitive position by locating close to our customers. Despite some points of serious concern, including the high cost of land, the cost of production, and the high cost of domestic transportation, we decided to locate our Asian factory in Japan.

In our second step, we gathered information on Japanese locations and their limitations. For reasons of quality control, we needed a location with temperate weather conditions

throughout the year. Based on our demand projections, we determined that the factory should become operational in January 1999. This gave us a period of 18 months from the selection of the site to completion of this wholly-owned factory. Information gathering was particularly difficult and a huge amount of time and effort was put into translating materials into English.

In selecting a site, utilizing the information that we had gathered, we put together a comprehensive assessment based on weather conditions, cost of production, access to transport, number of schools, and preferential programs being offered by local governments. We then visited the candidate sites, taking a close look at the area and visiting companies and factories in the vicinity. Finally, having assessed each potential site, we chose the prefecture where we would locate.

Foreign companies have a special interest in cost of transportation, cost of land, and convenience of access to Tokyo and Osaka. In particular, the cost of land is a critical matter as U.S. companies view land as a fixed cost and not as an asset. The factory site that we purchased was five times more expensive than the site of our headquarters in the United States. Additionally, English translation of materials was important. English versions of pamphlets and other materials on available sites should be prepared. Other important requirements include: availability of interpreters, explanation of environmental protection requirements and initiatives, speedy response by local government to company questions, and availability of ample explanatory materials. Most important of all is the follow-up support of the governor and other authorities in all the preparatory phases including purchase of the property, agreement on building of the factory, and the acquisition of various permits and approvals. For companies with a special interest in speedy action, the availability of a one-stop administrative functions and confidence and trust in the local government are critical factors in the final choice of location.

The factory is now in its third year of operation. Output has been gradually increased, and current capacity is six times what it was at the start. The factory has come to account for more than 50% of the company's total sales, and our investment in Japan was a success.

Case 3: Acquisition of Japanese company by U.S. manufacturing company "C"

We acquired a company that manufactures disposable food and drink containers. We approached the company at a time when the founder and chairman of the company was beginning to think about withdrawing from management and selling his shares. Our company is a supplier of paper cups, straws and other items to a foreign coffee shop chain that is expanding rapidly in Japan and Asia and therefore economies of scale existed. Our strategy was to enter the Japanese market by acquiring an existing company, which would give us access to an existing distribution network. The deal was attractive to our counterpart for various reasons: our advanced technologies and know-how would be shared with it and it would become a part of a larger global enterprise. Both parties concluded that they had found an excellent partner, and the M&A deal was implemented.

Case 4: Entry into Japan by U.S. manufacturing company "D"

Our company has been in the Japanese market for many years and we currently employ 4,700 people in Japan (of which 4,400 are Japanese). The leading reasons for our entry into Japan were the Japanese consumer and the existence of Japanese competitors. Success in Japan is one of the first requirements for success as a global business and the Japanese market is a

source of innovation. We are able to bolster our competitive position in the world markets by developing products which satisfy Japan's picky consumers and winning against companies with very short product cycles. Our decision to locate our Kansai Headquarters in Kobe was based on such factors as easy access, transportation infrastructure, availability of co-locate space, and the living environment of our employees

Case 5: Acquisition of Japanese financial institution by U.S. fund managing company "D"

We acquired a troubled Japanese regional bank. After a transfer of the business and the lay-off and re-hiring of employees the bank made a fresh start in February 2001. Branches and employees were reduced and the bank became focused on local business. About 90% of our outstanding loans are to individuals and small businesses. While others are cutting back their loans, we are increasing our lending for the following reasons:

- By specializing in personal and small-business loans, we have been able to develop products that match customer needs.
- We have focused on return on risk, rather than on market share, which has cut expenses.
- We have instituted rigorous credit management, hired outstanding personnel, some mid-career, regardless of age and nationality, and instituted achievement-based personnel evaluation.
- We have separated management and executive functions, and instituted governance (only three full-time directors).

Case 6 of Investment in Japan: Entry into Japan by U.S. company "F"

We have been involved with Japan since the Meiji Era as a supplier of power generation equipment. We now have over \$30 Billion invested in Japan. Since 1995 our workforce has grown from 3,000 to 15,000 Japanese employees.

In the financial services sector, we have become involved in commercial leasing, life insurance, automobile leasing, consumer financing and other businesses. In all we have nearly 20 businesses operating successfully in Japan. Overseas sales account for roughly 40% of our total sales, and Japan accounts for 20% of our overseas sales.

Japanese markets are extremely competitive and Japanese customers are some of the worlds most demanding. Thanks to nearly 100 years of strong partnerships with Japanese companies, we have been successful in Japan and continue to see Japan as a source of ideas, growth & innovation. While the Japanese economy continues to make positive steps towards reform, we do believe that there are areas that would help create an even more compelling & attractive investment climate in Japan, including disposal of non-performing loans; judicial reform; and deregulation. Greater mobility in labor markets, pension portability and the strengthening of corporate governance would also serve to facilitate this. Finally, better understanding and support for M&A and corporate restructuring would further fuel the economic dynamism in Japan that we all desire.

APPENDIX 4: Investment Support Activities in Japan

In addition to Japanese deregulation and the revision of economic legislation aimed at improving the general environment for foreign investment, the Government is implementing the following investment support activities:

- Activities and programs for incoming FDI focused on the early stages of investment. Preferential tax treatment and credit guarantees are provided under the Law Concerning Importation and Incoming Investment. The Development Bank of Japan also provides low-interest loans.
- Information on investing in Japan is provided by JETRO as well as by the Centers for the Promotion of Direct Investment in Japan operating under the Development Bank of Japan. JETRO is implementing a broad range of support activities through its network of 80 overseas offices. Examples of some of JETRO's activities include:
 - Providing information overseas (80 overseas offices, 13 advisers for investment in Japan (posted in Europe and United States), 10 investment advisers (posted in Asia).
 - Inviting to Japan companies that are candidates for investment in Japan.
 - Dispatching *Invest in Japan* missions to Europe and United States.
 - Establishment of six business support centers in Japan offering free office space and consulting services with experts.
 - M&A seminars.

JETRO co-hosted the *Invest in Japan* symposium held in New York in April 2001 and will support the *Invest in Japan* symposia scheduled to be held in the summer of 2002. With the awareness that incoming foreign direct investments will have an increasingly important role to play in the revitalization of the Japanese economy, JETRO will strive to improve its one-stop information services and will continue to host seminars and other activities aimed at developing a better appreciation of M&A activities in Japan.